

No protest rec'd
Release to DD
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
FEB 10 1997

Employer Identification Number: [REDACTED]

Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(6). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

Your purposes, as stated in your Articles of Incorporation, are:

"(a) to establish, implement and operate a health care management organization which will monitor health care in the [REDACTED] to assure that the procedures involved are conducted in the most cost effective manner for all participating and eligible employees and their dependents;

(b) to provide consultation and assistance to providers of health care and others in order to improve the efficiency, availability, acceptability, accessibility, quality and/or economy of health services;

(c) to provide and operate health care services and facilities when deemed appropriate by the Corporation's Board of Directors;

(e) to do any and all things necessary or appropriate to carry out the foregoing purposes and to engage in any lawful business or activities related thereto; and to engage in any lawful act or activity for which corporations may be organized under the Nonprofit Code."

Your primary activity has been, and will continue to be, the development and operation of a health care network of professionals to provide health care for employees of your membership. You have contracted with [REDACTED] to develop a network of health care providers that includes physicians, hospitals and related health care services. Your activity is

[REDACTED]

being conducted in the [REDACTED] that includes the [REDACTED] counties of [REDACTED] and [REDACTED] and the [REDACTED] counties of [REDACTED] and [REDACTED]. Your membership is made up of businesses, municipalities and corporations of the [REDACTED]. Membership is predicated upon the payment of annual dues that are used to pay start up costs and basic administrative costs. Your present source of funds is from the payment of membership dues. Future sources of funds will be generated from membership dues and fees generated from the utilization of the health care network.

You state that you provide your member businesses the opportunity to purchase more competitively priced, higher quality health care coverage for their employees, which, but for you, could not be acquired by a single member. You further state that this lower cost of health coverage allows them to pay higher wages, increases productivity, improves quality and generally employee morale, thus, business conditions are improved overall. The benefit of lower cost and higher quality health care coverage is not restricted to a specific line of business.

Founding members originally paid an annual fee of \$5000 plus a fee of \$1.25 per full-time employee. These fees have changed each year and presently the annual fee is \$3000 per year plus \$1.25 per employee. A second category of membership exists and is called Participating Members. These members pay an annual fee of \$300 plus a \$1.25 charge per employee. All revenue is generated as a result of membership dues.

Section 501(c)(6) of the Code provides, in pertinent part, for the exemption from federal income tax of "business leagues", not organized for profit, and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations requires that a business league's activities must be directed to the improvement of business conditions of one or more lines of business, as distinguished from the performance of particular services for individual persons or companies.

Section 1.501(c)(6)-1 of the regulations also states that an organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit does not qualify as a business league, even if the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining.

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Rev. Rul. 56-65, 1956-1 C.B. 199, concludes that a local organization whose principal activity consists of furnishing particular information and specialized individual service to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses, is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption from federal income tax under section 501(c)(6) of the Code as a business league even though it performs functions which are of benefit to the particular industry, the general public, State and Federal Governments, and their agencies.

Rev. Rul. 56-84, 1956-1 C.B. 201, holds that an organization, operated primarily for the purpose of promoting, selling and handling the national advertising in its members' publications, is engaged in the performance of particular services for individual members as distinguished from activities for the improvement of the business conditions of its members as a whole and, therefore, is not entitled to exemption from federal income tax as a business league.

Rev. Rul. 66-151, 1966-1 C.B. 152, holds that management of a health benefit plan, in return for fees paid by member employers, is an "unrelated business" for a business league under section 501(c)(6) of the Code. The management fees were based on the number of employees in the plan. The management of the health benefit plan constituted the performance of particular services for fees under section 1.501(c)(6)-1 of the regulations and, thus, goes beyond an exempt activity of promoting one or more lines of business under section 501(c)(6).

Rev. Rul. 66-338, 1966-2 C.B. 226, provides that an organization formed to promote the interests of a particular retail trade which advises its members in the operation of their individual businesses and sells supplies and equipment to them is not exempt from federal income tax under section 501(c)(6) of the Code because it is performing particular services for its members.

Rev. Rul. 68-264, 1968-1 C.B. 264, describes an organization which was incorporated to operate, as its primary activity, a traffic bureau for members and nonmembers as a service in the shipment of their goods and products. It holds that a traffic bureau, of the type described above, is a business of a kind ordinarily carried on for profit, and that because the traffic bureau is the primary activity of this organization, it is not exempt from federal income tax under section 501(c)(6) of the

[REDACTED]

Code. It further holds that activities that constitute the performance of particular services for individual persons may preclude exemption from federal income tax under section 501(c)(6), stating that an activity that serves as a convenience or economy to members in the operation of their businesses, as is this traffic bureau service, is a particular service of the type proscribed.

Rev. Rul. 68-265, 1968-1 C.B. 265, describes an organization which conducts, as its primary activity, the furnishing of a credit information service to its members. Income is derived exclusively from dues and interest on its bank balance. It holds that the organization is precluded from exemption from federal income tax under section 501(c)(6) of the Code for two reasons. First, its primary activity constitutes a regular business of a kind ordinarily carried on for profit and would preclude exemption from federal income tax under section 501(c)(6). Second, citing United States v. Oklahoma City Retailers Association, 331 F.2d 328 (1964), it states that an activity that serves as a convenience or economy to members in the operation of their businesses is a particular service of the type proscribed under section 501(c)(6) and that the exchange of credit information among the members of this organization is a clear convenience and economy to them in their businesses and constitutes the performance of particular services for individual persons, precluding exemption under section 501(c)(6).

Rev. Rul. 74-81, 1974-1 C.B. 135, concerning member businesses seeking workmen's compensation insurance, holds that a nonprofit membership organization that arranges for insurance for its member businesses is providing a convenience or economy for its member businesses because it "relieves the members of obtaining this insurance on an individual basis, resulting in a convenience in the conduct of their businesses." Therefore, the organization is rendering particular services for individual businesses, as distinguished from an exempt activity of promoting business conditions in general.

In Associated Master Barbers & Beauticians of America, Inc. v. Commissioner, 69 TC 53 (1977), the court sustained the revocation of the petitioner's exempt status under section 501(c)(6) of the Code because of the extensive commercial services provided to members. The court stated:

Because these activities serve as a convenience or economy to petitioner's members in the operation of their business, we think they constitute "particular services" as proscribed by the regulations. By

[REDACTED]

providing insurance or textbooks for its members, the petitioner relieves its members of obtaining insurance or textbooks on an individual basis from a nonexempt commercial business. If the petitioner did not provide these goods and services, its members would have to obtain them from nonexempt businesses at a substantial increased cost. Thus, the organization is rendering "particular services" for the individual members as distinguished from an improvement of business conditions in barbering and beautician professions generally.

Based on the information submitted, we find that your primary activity is the negotiation of a health care benefit program for your member employers who pay you fees based upon the numbers of their employees. Although a for-profit company may assist you, you are engaged in arranging and maintaining this particular service for your members.

As were the organizations in Rev. Ruls. 56-65, 56-84, 66-151, 66-338, 68-264, 68-265, and 74-81, and in Associated Master Barbers & Beauticians of America, Inc. v. Commissioner, you are engaged in providing a particular business service as a convenience and economy to your members, rather than promoting, in general, a specific industry or line of business. Failure to promote a specific industry or line of business would itself preclude recognition of exemption under section 501(c)(6). The fact that a for-profit company assists you in providing the particular service does not alter the fact that your primary purpose is to provide a particular cost reduction planning service for your member businesses. These particular services are a nonexempt purpose under section 501(c)(6) of the Code and section 1.501(c)(6)-1 of the regulations and, as shown in the examples cited above, because the provision of these particular services is your primary activity, also preclude recognition of exemption under section 501(c)(6).

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(6) of the Code and you must file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one,